VT WOODHILL UK EQUITY STRATEGIC FUND
Managed by Woodhill Asset Management LLP

NEWSLETTER AUGUST 2022

Bloomberg ID: VTWARNI LN **SEDOL: BMTRT64** **ISIN: GB00BMTRT641**

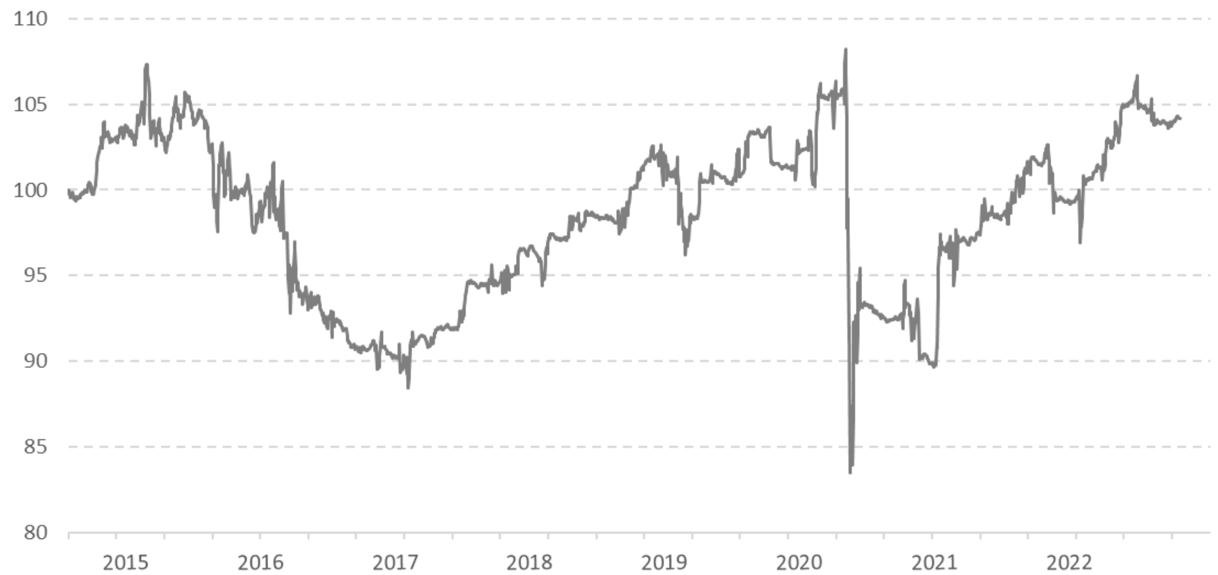
Fund value at midday 31st August was 78.9991

Assets under management: £24.5m

	Sep-21 *	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22 *	Apr-22	May-22	Jun-22	Jul-22	Aug-22
Total Return	-2.36% *	-0.08%	-2.42%	3.81%	-0.08%	2.29%	2.03% *	1.07%	-1.40%	-0.50%	-0.44%	0.58%

***Inc. Distributed Dividend**

VT WoodHill UK Equity Strategy Fund, dividends re-invested (UK p)



PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

Source: VTIM

Although a notable bear market rally occurred during much of August, by the end of the month, the market was down 1.9%. We remained hedged and were up 0.6% over the month.

While a notable bear market rally has happened, we felt cautious to participate in it. We have waited it out and finally it does seem to be over. There were a few reasons why the bear market rally took place, but the reasons were not strong enough for us to want to take the risk of being unhedged. Why was this? In essence we believe that the market rallied for purely 'technical' reasons and that there was very little fundamental underpinning to the move. To us, this meant that we could never be sure that the rally could sustain itself. Regarding the technical factors, the important ones were that the market was oversold, and that sentiment was clearly quite negative. These two factors have steadily reversed themselves over the month. By the end of August, the UK equity market was, if anything, overbought (and certainly not oversold anymore) and sentiment had become much less negative. What bothered us was that while sentiment was improving, and while the market was rising, the fundamental picture was getting worse. Leading indicators pointed more and more to a weakening economy, and consequently to falling corporate earnings estimates. Interest rates and inflation have continued to rise and an acceleration in QT* tightening was on the edge of intensifying and accelerating.

Right now, there are two 'flavours' of QT going on, one in the US and a different one in the UK. In the US while the amount of QT that the Federal Reserve is doing on a month-on-month basis is increasing it is still

1 From time to time, the fund uses FTSE 100 equity futures to protect the value of the fund. When the hedge is applied, net equity exposure is reduced, and the capital should be largely protected.

the case that what they are doing is simply letting their bond portfolio roll off and mature. When bonds that they own mature they simply do not reinvest the proceeds in a new purchase. By contrast in the UK the Bank of England's approach is quite a lot more intense. The Bank of England's plan involves selling bonds into the market. This implies a direct and quite powerful reduction in liquidity. There will just be less money available to the players to buy assets.

It is hard for markets to discount this force – it is a little like trying to discount the existence of gravity. Just because everyone knows about gravity does not mean that it no longer works. We believe that the Bank's QT plan will put downward pressure on asset prices (bonds and equities) and that it will certainly act as a headwind blowing against any material appreciation. It could even have a powerful effect on bond prices and push interest rates upwards, especially as it now seems that the Bank of England is falling further and further behind the curve regarding interest rates and inflation. Given how inflation expectations seem to be rising almost daily, and that the Bank is now selling government bonds rather than buying, a bond market correction is far from impossible. It is also the case that the silence of the Bank of England, and its very gentle movement upwards in base rates to date, could create the conditions for a currently weak Sterling to turn into something more like a Sterling crisis. A Sterling crisis is more normally associated with a Labour government but so is high inflation, large budget deficits and widespread industrial action.

The other reason for short term caution is that suddenly it seems that a few important 'things' are taking longer to happen that some market participants had hoped for. The most significant in this regard is the nature of central bank tightening. For a while in the summer there was an assumption (that could be seen in bond market yield curves and futures) that short term interest rates would not rise very much and then by early next year rates would be on the way down again. This view is now changing. It seems from both the central banks own language (especially in the US) and from the economic and inflation data, that the fight against inflation is going to take longer than had been thought. Unless some dramatic accident happens between now and early next year, a strategy of holding onto positions because rate cuts are on the way is evaporating.

Related to this is the situation with Russia and the Ukraine. Hopefully something positive can happen here but for now it seems that a resolution in which all the tariffs against Russian gas and other exports can be lifted is somewhat distant. Unless Putin retires or is deposed it seems that high gas and oil prices may be here to stay. This only reinforces the idea that inflation will become more embedded and that interest rates will stay higher for longer. Nothing seems especially transitory anymore.

We do believe however that there will be opportunities for us to be exposed to the market and to make money rather, than just preserve it. It is possible that the potentially quite negative effect on financial markets of QT will lead to a pause in central bank tightening. This, along with oversold markets and a pessimistic investor base could well provide an opportunity. We will continue to watch closely and as always, we would like to thank everyone involved with our fund.

**QT; quantitative tightening*

TOP FIFTEEN EQUITY HOLDINGS 31st AUGUST 2022

Shell	7.3%
AstraZeneca	7.3%
HSBC	5.0%
BP	4.4%
Diageo	4.0%
BATS	3.4%
Rio Tinto	3.4%
National Grid	2.8%
Compass Group	2.6%
BAE	2.5%
Relx	2.4%
Unilever	2.2%
Glencore	2.1%
Reckitt Benckiser	2.0%
Lloyds bank	1.6%

Fund manager: Paul Wood

5th September 2022

www.woodhillam.co.uk